

*Financial Report*

*Habitat for Humanity St. Tammany West*

*June 30, 2014*



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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors,  
Habitat for Humanity St. Tammany West,  
Mandeville, Louisiana.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Habitat for Humanity St. Tammany West (a non-profit organization) ("HFHSTW") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to HFHSTW's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HFHSTW's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity St. Tammany West as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Habitat for Humanity St. Tammany West financial statements, and our report dated November 26, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated November 21, 2014 on our consideration of the HFHSTW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HFHSTW's internal control over financial reporting and compliance.



Certified Public Accountants.

New Orleans, Louisiana,  
November 21, 2014.

## **STATEMENT OF FINANCIAL POSITION**

### **Habitat for Humanity St. Tammany West Mandeville, Louisiana**

June 30, 2014  
(with comparative totals for 2013)

#### **ASSETS**

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents		
Unrestricted	\$ 192,025	\$ 197,390
Reserved - escrow deposits	160,458	140,583
Mortgage notes receivable - current portion, net (Note 4)	597,843	569,058
Pledges receivable - current portion, net (Note 5)	50,239	16,667
Grants receivable	42,331	15,094
Accounts receivable	65,144	91,494
Inventory	33,315	45,978
Other assets	15,018	21,213
Construction in progress	129,712	627,110
Total current assets	<u>1,286,085</u>	<u>1,724,587</u>
<b>Property And Equipment</b> (Note 2j)		
Building and improvements	1,639,722	1,639,722
Land	656,593	540,829
Vehicles	151,274	163,859
Office furniture and equipment	126,565	126,565
Less accumulated depreciation	<u>(659,352)</u>	<u>(608,646)</u>
Total property and equipment, net	<u>1,914,802</u>	<u>1,862,329</u>
<b>Other Assets</b>		
Long term portion of mortgage notes receivable, net of unamortized discounts (Note 4)	4,342,552	4,184,129
Investment in HFHI-SA Leverage I, LLC (Note 6)	3,255,066	3,187,653
Land held for future home sites	558,716	826,671
Loan obligation costs, net (Note 2l)	39,509	79,016
Prepaid loan costs	-	16,394
Long-term portion of pledges (Note 5)	<u>17,605</u>	<u>23,250</u>
Total other assets	<u>8,213,448</u>	<u>8,317,113</u>
Total assets	<u>\$ 11,414,335</u>	<u>\$ 11,904,029</u>

See notes to financial statements.

**LIABILITIES AND NET ASSETS**

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Accounts payable, accrued expenses, and other	\$ 136,927	\$ 167,456
Lines of credit (Note 7)	400,000	625,000
Current maturities of notes payable (Note 8)	136,086	127,673
Accrued remediation costs (Note 13)	-	20,000
Deferred revenue	21,344	19,435
Escrow deposits	<u>160,458</u>	<u>140,583</u>
Total current liabilities	<u>854,815</u>	<u>1,100,147</u>
<b>Long Term Liabilities</b>		
Long term portion of notes payable (Note 8)	2,722,890	2,355,232
QLICI note payable (Note 6)	<u>3,757,086</u>	<u>3,757,086</u>
Total long term liabilities	<u>6,479,976</u>	<u>6,112,318</u>
Total liabilities	<u>7,334,791</u>	<u>7,212,465</u>
<b>Net Assets</b>		
Unrestricted	4,011,700	4,651,647
Temporarily Restricted (Note 5 and 9)	<u>67,844</u>	<u>39,917</u>
Total net assets	<u>4,079,544</u>	<u>4,691,564</u>
Total liabilities and net assets	<u>\$ 11,414,335</u>	<u>\$ 11,904,029</u>

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS****Habitat for Humanity St. Tammany West**  
Mandeville, LouisianaFor the year ended June 30, 2014  
(with comparative totals for 2013)

	2014		
	Unrestricted	Temporarily Restricted	Totals
			2013
<b>Support and Revenue</b>			
Sales of houses (Note 10)			
Sales revenue	\$ 1,232,006		\$ 1,232,006
Less: mortgage note receivable discount	(746,543)		(746,543)
Amortization of mortgage note receivable discount (Note 10)	388,628		388,628
ReStore revenues	883,284		883,284
Grants	308,079		308,079
Contributions	369,334		369,334
Event revenues			
Event income	151,171	\$ 49,187	200,358
Event expenses	(27,878)		(27,878)
HFHI-SA investment income (Note 6)	95,926		95,926
Contributions in-kind	189,704		189,704
Other revenue	24,670		24,670
Net assets released from restrictions	21,260	(21,260)	-
<b>Total support and revenue</b>	<b>2,889,641</b>	<b>27,927</b>	<b>2,917,568</b>
<b>Expenses</b>			
Program services			
Housing	2,455,670		2,455,670
ReStore	684,198		684,198
Supporting services			
Management and general	222,947		222,947
Fundraising	166,773		166,773
<b>Total expenses</b>	<b>3,529,588</b>	<b>-</b>	<b>3,529,588</b>
<b>Changes in net assets</b>	<b>(639,947)</b>	<b>27,927</b>	<b>(612,020)</b>
<b>Net assets</b>			
Beginning of year	4,651,647	39,917	4,691,564
End of year	\$ 4,011,700	\$ 67,844	\$ 4,079,544

See notes to financial statements.

**STATEMENT OF FUNCTIONAL EXPENSES****Habitat for Humanity St. Tammany West**

Mandeville, Louisiana

For the year ended June 30, 2014

(with comparative totals for 2013)

	Program Expenses		Supporting Services		Totals	
	Housing	ReStore	Management and General	Fund-Raising	2014	2013
<b>Wages</b>	\$ 523,433	\$ 328,451	\$ 101,791	\$ 115,680	\$ 1,069,355	\$ 1,203,805
<b>Occupancy</b>						
Interest	110,554	23,503	31,331	1,316	166,704	163,041
Utilities	11,735	30,767	4,383	3,012	49,897	51,433
Insurance	26,097	18,343	3,002	4,094	51,536	46,518
Repairs and maintenance	5,288	8,957	4,239	824	19,308	33,249
Total occupancy	153,674	81,570	42,955	9,246	287,445	294,241
<b>Operating</b>						
Direct construction costs - NMTC	210,821	-	-	-	210,821	140,279
Direct construction costs - other	1,083,962	-	-	-	1,083,962	1,237,462
Cost of goods sold	-	41,628	-	-	41,628	48,767
Supplies and general	3,007	7,909	3,568	1,182	15,666	25,061
Vehicle fuel, insurance, and maintenance	7,207	9,082	1,170	435	17,894	23,711
Other operating costs	34,649	76,558	17,586	15,246	144,039	189,122
Total operating	1,339,646	135,177	22,324	16,863	1,514,010	1,664,402
<b>Administrative</b>						
Payroll taxes and benefits	128,998	66,394	15,178	23,949	234,519	240,751
Professional fees	47,527	19,980	38,631	250	106,388	130,040
Total administrative	176,525	86,374	53,809	24,199	340,907	370,791
<b>Depreciation</b>	7,236	52,626	2,068	785	62,715	67,142
<b>Impairment Loss (Note 14)</b>	255,156	-	-	-	255,156	-
Total functional expenses	\$ 2,455,670	\$ 684,198	\$ 222,947	\$ 166,773	\$ 3,529,588	\$ 3,600,381

See notes to financial statements.



**STATEMENT OF CASH FLOWS****Habitat for Humanity St. Tammany West**  
Mandeville, LouisianaFor the year ended June 30, 2014  
(with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Operating Activities</b>		
Changes in net assets	\$ (612,020)	\$ (229,136)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	62,715	67,142
Impairment loss	255,156	-
Loss on donation of vehicle	576	-
Gain on sale of land held for future home sites	-	(974)
Income from HFHI-SA Leverage I, LLC	(95,926)	(95,926)
Amortization of loan obligation costs	39,507	40,569
Interest and loan charges included in refinancing	1,892	21,156
Donations of land held for future home sites	(40,000)	(8,000)
Donation of equipment	-	(6,562)
Donation of land (property)	(115,764)	-
Decrease (increase) in assets:		
Mortgage notes receivable	(187,208)	(168,462)
Pledges receivable	(27,927)	(14,917)
Grants receivable	(27,237)	85,778
Accounts receivable	26,350	7,985
Inventory	12,663	43,673
Other assets	6,195	(18,249)
Construction in progress	497,398	(298,430)
Prepaid loan costs	16,394	16,341
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(30,529)	(28,072)
Deferred revenue	1,909	(12,422)
Accrued remediation costs	(20,000)	(30,000)
Escrow deposits	19,875	13,786
Net cash used in operating activities	<u>(215,981)</u>	<u>(614,720)</u>

**Exhibit D  
(Continued)**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Investing Activities</b>		
Distribution from HFHI-SA Leverage I, LLC	28,513	28,513
Proceeds from sale of land held for future home sites	96,454	128,524
Purchases of land held for future home sites	<u>(43,655)</u>	<u>(76,209)</u>
Net cash provided by investing activities	<u>81,312</u>	<u>80,828</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from lines of credit	250,000	686,736
Proceeds from notes payables	514,933	30,280
Repayments of lines of credit	(475,000)	(335,402)
Repayments of term loan	-	(24,355)
Principal payments on notes payable	<u>(140,754)</u>	<u>(162,944)</u>
Net cash provided by financing activities	<u>149,179</u>	<u>194,315</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	14,510	(339,577)
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>337,973</u>	<u>677,550</u>
End of year	<u>\$ 352,483</u>	<u>\$ 337,973</u>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS****Habitat for Humanity St. Tammany West**  
Mandeville, Louisiana

June 30, 2014 and 2013

**Note 1 - NATURE OF ACTIVITIES**

Habitat for Humanity St. Tammany West ("HFHSTW") was founded in 1981 as the tenth affiliate of Habitat for Humanity International and first in the State of Louisiana. HFHSTW's vision is a world where everyone has a decent place to live and its mission is implemented by bringing people together to build homes, communities, and hope. HFHSTW identifies and acquires building sites and builds housing for workforce and low-income family partners. These homes, located in the western half of St. Tammany Parish, are sold to qualified family partners who have contributed 300-400 hours of sweat equity and signed non-interest bearing mortgage notes. HFHSTW relies heavily on volunteer efforts, donations from individuals, churches and companies, Habitat's Fund for Humanity, government and private grants, and various other financing vehicles to fund the construction projects.

Habitat's Fund for Humanity consists of non-interest bearing mortgage receivable payments from existing homeowners (see Note 4). In effect, homeowners, when making monthly mortgage payments for their homes, are supporting the construction financing for future homeowners.

HFHSTW also operates a 20,000 square foot ReStore facility from which it primarily sells donated building materials and home furnishings to middle and low income customers. The net proceeds from ReStore operations are used to fund the acquisition of some of the building sites and construction of some of the homes referred to in the previous paragraphs.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Organization and Income Taxes**

HFHSTW is a nonprofit organization organized under the laws of the State of Louisiana and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and qualifies as an organization that is not private foundation as defined in Section 509(a) of the IRC. It is also exempt from Louisiana income tax under the authority of R.S. 47.121(5).

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a. Organization and Income Taxes (Continued)**

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2014, management believes HFHSTW has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. HFHSTW recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. Tax years ended June 30, 2011 and later remain subject to examination by the taxing authorities.

**b. Basis of Accounting**

The financial statements of HFHSTW are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded when incurred.

**c. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that impact certain reported amounts and disclosures. Actual results could differ from those estimates.

**d. Basis of Presentation**

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HFHSTW and changes thereto are classified and reported as:

**Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met either by actions of HFHSTW and/or the passage of time.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. Basis of Presentation (Continued)**

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that are maintained permanently by HFHSTW. Generally, the donors of such assets permit the donor to use all or part of the income earned from these assets for general or specific purposes. As of June 30, 2014 and 2013, HFHSTW had no permanently restricted net assets.

**e. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, HFHSTW considers all short-term highly liquid investments with an original maturity of one year or less from the date of acquisition to be cash equivalents.

**f. Reserved Cash**

HFHSTW services the mortgages on the homes it sells. Included in cash and cash equivalents are amounts received from homeowners for insurance and property taxes and for mortgage payments received prior to closing. Reserved cash for escrow deposits as of June 30, 2014 and 2013 was \$160,458 and \$140,583, respectively.

**g. Mortgage Notes Receivable**

Mortgage notes receivable consist of non-interest bearing mortgage notes which are collateralized by real estate in the St. Tammany West area and payable in monthly installments over the life of the mortgage loans. The mortgage notes receivable are net of discounts, which represent the difference between the stated amount of the mortgage notes and the present value based on an imputed amount of interest. The discounts are amortized over the lives of the mortgage loans. The imputed interest rates are set by Habitat International. The rates are based on a twelve month average rate published by the Internal Revenue Service plus a risk factor of 3%. Mortgage notes receivable are considered past due if payments are more than thirty days late. Management believes that the values of such collateral are in excess of the mortgage notes receivable as of June 30, 2014 and 2013 and therefore no allowance for losses has been provided.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h. Pledges Receivable**

Contributions are recognized when the donor makes a pledge to HFHSTW that is, in substance, unconditional. Conditional pledges are recognized when the conditions on which the pledge are substantially met. Pledges receivable are recognized as assets, net of an allowance for uncollectible amounts. HFHSTW provides for estimated uncollectible pledge receivables based on prior years' experience and management's analysis of specific pledges made. As of June 30, 2014 and 2013, the allowance for uncollectible amounts totaled \$6,619 and \$7,535, respectively.

**i. Inventory**

Inventory represents building materials and goods to be sold in the ReStore operations, as well as building materials and goods on hand for use in the construction of homes. Gift-in-kind inventory is recorded at the fair value on the date of receipt, and such items are expensed as program services expense when used based on the specific identification method. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. As of June 30, 2014 and 2013, inventory totaled \$33,315 and \$45,978, respectively.

**j. Property and Equipment**

Property and equipment consists of land, buildings and improvements, office furniture and equipment, and is stated at cost or fair market value at date of donation, net of accumulated depreciation. Repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Buildings are depreciated over thirty years. Other depreciable property and equipment is depreciated over five to twelve years. HFHSTW has established a policy capitalizing all expenditures for property and equipment in excess of \$5,000 with a useful life of five or more years. For the years ended June 30, 2014 and 2013, depreciation expense totaled \$62,715 and \$67,142, respectively.

**k. Construction in Progress**

Construction in progress represents all direct material, labor, land, and infrastructure costs incurred to construct family housing. Revenue is recognized under the full accrual method when a sale is consummated and the homeowner is obligated under a mortgage.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**k. Construction in Progress (Continued)**

As of June 30, 2014 and 2013, construction in progress included:

	<u>2014</u>	<u>2013</u>
New homes under construction	\$ 67,757	\$ 457,239
Reposessed homes	<u>61,955</u>	<u>169,871</u>
Total construction in progress	<u>\$ 129,712</u>	<u>\$ 627,110</u>

**l. Loan Obligation Costs**

Certain costs related to the New Markets Tax Credit Financing (see Note 6) have been capitalized and are being amortized over the estimated life of the related notes payable. Financing and loan acquisition costs totaled \$233,752 for both years ended June 30, 2014 and 2013. Accumulated amortization totaled \$194,243 and \$154,736 as of June 30, 2014 and 2013, respectively.

**m. Compensated Absences**

Accumulated paid time off is payable upon termination of employment and is accrued. HFHSTW's obligation as of June 30, 2014 and 2013 totaled \$61,669 and \$67,885, respectively, which is included in accounts payable and accrued expenses on the Statement of Financial Position.

**n. Contributions and Revenue Recognition**

Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions were made. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n. Contributions and Revenue Recognition (Continued)**

Contributions of non-cash assets such as materials and equipment used in construction of homes are recorded as deferred revenue at their fair or estimated values in the period received. When the non-cash asset is utilized in the construction of homes it is then recorded as revenue. The balance of non-cash assets recorded as deferred revenue and held for construction as of June 30, 2014 and 2013 totaled \$21,344 and \$19,435, respectively.

**o. Donated Services of Volunteers and Other In-Kind Donations**

A substantial number of volunteers have given extensive amounts of time and services to HFHSTW. However, no amounts are reflected in the financial statements for such services as management feels that the requirements for recording in-kind services have not been satisfied. Other contributed services that require specialized skills provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation are recognized as revenue and expense and totaled \$22,858 and \$33,021 for the years ended June 30, 2014 and 2013, respectively.

Donations of materials, supplies, and other totaled \$166,846 and \$87,985 for the years ended June 30, 2014 and 2013, respectively.

**p. Sales Tax**

The State of Louisiana and St. Tammany Parish imposes a sales tax of 8.75% on all of HFHSTW sales to non-exempt customers. HFHSTW collects that sales tax from customers and remits the entire amount to the State. For the years ended June 30, 2014 and 2013, HFHSTW paid state sales taxes totaling \$73,853 and \$72,704, respectively. Sales tax collected and paid is not reported as revenues and expenses on the statement of activities and charges in net assets.

**q. Advertising Expense**

HFHSTW uses advertising to promote ReStore operations and fundraising activities. The production costs of advertising are expensed as incurred. For the years ended June 30, 2014 and 2013, advertising costs totaled \$25,363 and \$20,138, respectively.



**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**r. Allocated Expenses**

Expenses are summarized on a functional basis. Salaries and related payroll expenses are distributed based upon the time spent for each function. Allocation of all other shared expenses is based upon management's estimates of the usage applicable to conducting various program or support activities.

**s. Subsequent Events**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 21, 2014.

**Note 3 - CONCENTRATION OF CREDIT RISK**

HFHSTW builds and rehabilitates homes in the St. Tammany West area. As a result, all of the mortgage receivables from homeowners are concentrated as to geographic risk. Also, all homes built are transferred to low-income families, which can represent a credit risk.

HFHSTW maintains cash balances at several local financial institutions where the funds are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2014 and 2013, HFHSTW had no cash deposits in excess of the insured limits.

**Note 4 - MORTGAGE NOTES RECEIVABLE**

HFHSTW sells its completed homes to family partners in exchange for a mortgage note (see Note 10) secured by the residence with typical repayment terms over 15 to 35 years and bearing 0% interest. As of June 30, 2014, HFHSTW held 222 non-interest bearing loans, 96 of which (\$4,556,464 gross carrying value) are pledged to secure certain notes payable. As of June 30, 2013, HFHSTW held 213 non-interest bearing loans, 106 of which (\$5,159,681 gross carrying value) were pledged to secure certain notes payable (see Note 8).

**Note 4 - MORTGAGE NOTES RECEIVABLE (Continued)**

As of June 30, 2014 and 2013, a summary of the mortgage notes receivable was:

	<u>2014</u>	<u>2013</u>
Mortgage notes receivable	\$ 11,070,553	\$ 10,525,430
Unamortized discount	<u>(6,130,158)</u>	<u>(5,772,243)</u>
Net	<u>\$ 4,940,395</u>	<u>\$ 4,753,187</u>
Current	\$ 597,843	\$ 569,058
Long-term	<u>4,342,552</u>	<u>4,184,129</u>
	<u>\$ 4,940,395</u>	<u>\$ 4,753,187</u>

As of June 30, 2014, contractual maturities of mortgage receivables were as follows:

2015	\$ 597,843
2016	597,397
2017	596,754
2018	592,095
2019	584,320
Thereafter	<u>8,102,144</u>
	<u>\$ 11,070,553</u>

**Note 5 - PLEDGES RECEIVABLE**

During the years ended June 30, 2014 and 2013, HFHSTW held the Community Partners Breakfast ("CPB") in which donors made unconditional promises to give for up to five years. These long-term pledges were discounted using a rate of 5%. Management estimated \$9,985 and \$7,535 of pledges to be uncollectible as of June 30, 2014 and June 30, 2013, respectively.

**Note 5 - PLEDGES RECEIVABLE (Continued)**

As of June 30, 2014 and 2013, a summary of the CPB pledges receivable is as follows:

	<u>2014</u>	<u>2013</u>
Pledges receivable at beginning of year	\$ 49,697	\$ -
New CPB pledges made during the year	116,240	75,720
Less:		
Cash received	(79,698)	(26,023)
Write - offs	<u>(5,100)</u>	<u>-</u>
Pledges receivable at end of year	81,139	49,697
Unamortized discount	(3,310)	(2,245)
Allowance for doubtful promises	<u>(9,985)</u>	<u>(7,535)</u>
Pledges receivable, net	<u>\$ 67,844</u>	<u>\$ 39,917</u>
Current portion	\$ 50,239	\$ 16,667
Long-term	<u>17,605</u>	<u>23,250</u>
Total	<u>\$ 67,844</u>	<u>\$ 39,917</u>

Future maturities of pledges receivable are as follows:

2015	\$ 59,064
2016	18,175
2017	3,650
2018	<u>250</u>
	<u>\$ 81,139</u>

**Note 6 - NEW MARKETS TAX CREDIT**

On July 1, 2008, HFHSTW invested, along with four other Habitat for Humanity affiliates, in a joint venture, HFHI-SA Leverage I, LLC (the "LLC"), to take advantage of New Market Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors who, in exchange, will receive new market tax credits to be applied against their federal tax liability. HFHSTW's total investment in the LLC as of June 30, 2014 and 2013 totaled \$3,255,066 and \$3,187,653, respectively. Interest income earned on the investment in the LLC totaled \$95,926 for each of the years ended June 30, 2014 and 2013. HFHSTW secured a 15 year loan in the amount of \$3,757,086 payable to a community development entity ("QLICI note payable"). The loan proceeds have been and will continue to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years one through seven at the rate of 0.759% per annum. Beginning in year eight through year fifteen, the principal balance of the loan is to be reduced by an eight-year amortization at the same interest rate of 0.759%. Interest expense on this note totaled \$28,513 for both years ended June 30, 2014 and 2013. The balance of the note payable as of June 30, 2014 and 2013 was \$3,757,086 on both dates.

Included in the Statement of Financial Position as of June 30, 2014 is \$39,509 in unamortized closing costs net of amortization (\$79,016 for June 30, 2013), relating to the NMTC Program. These costs are being amortized over seven years on a straight line basis.

**Note 7 - LINES OF CREDIT**

In February 2013, HFHSTW obtained a line of credit at a financial institution with an interest rate of 3.25%, with a maturity date of February 19, 2014. This line of credit was renewed and will mature on May 14, 2015. Borrowings under the line are collateralized by certain assets of HFHSTW. The maximum borrowing limit is \$1,000,000. As of June 30, 2014 and 2013, HFHSTW had outstanding balances of \$400,000 and \$625,000, respectively. For the year ended June 30, 2014 and 2013, interest expense on the line of credit totaled \$12,560 and \$5,272, respectively.

HFHSTW had a line of credit with a financial institution that matured on February 28, 2013. Interest expense on this line was \$5,211 for the year ended June 30, 2013.

**Note 8 - NOTES PAYABLE**

As of June 30, 2014 and 2013, HFHSTW had the following notes payable:

	<u>2014</u>	<u>2013</u>
Note payable to Home Bank. The note is due in 119 equal installments of \$12,263 and one balloon payment estimated at \$1,192,122. The note bears interest at 4.5% and is secured by ReStore land and buildings.	\$ 2,282,643	\$ 1,907,726
Note payable to Home Bank. The note is due in 120 equal installments of \$5,197. The note bears interest at 4.5% and is secured by ReStore land and buildings.	483,325	-
Note payable to Habitat for Humanity International. The note was due in 40 quarterly installments of principal and interest of \$16,394 beginning June 30, 2012, with the final payment due June 30, 2022. The note bears interest at 4.75% and is secured by mortgages and notes receivable. This loan was paid in full during 2014.	-	477,971
Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$1,302 beginning June 2011, with the final payment of \$1,306 due July 1, 2015. The note does not bear interest and is unsecured.	23,179	38,803
Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$847 beginning January 2015 with the final payment of \$891 due January 2019. The note does not bear interest and is unsecured.	34,488	30,280

**Note 8 - NOTES PAYABLE (Continued)**

	<u>2014</u>	<u>2013</u>
Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$585 beginning July 2013 with the final payment of \$630 due June 2017. The note does not bear interest and is unsecured.	24,615	28,125
Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$446 beginning January 2016 with the final payment of \$488 due January 2020. The note does not bear interest and is unsecured.	<u>10,726</u>	<u>-</u>
	2,858,976	2,482,905
Less current portion	<u>(136,086)</u>	<u>(127,673)</u>
Long term	<u>\$ 2,722,890</u>	<u>\$ 2,355,232</u>

Future principal payments to be made on these notes are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 136,086
2016	152,429
2017	152,427
2018	154,052
2019	147,883
Thereafter	<u>2,116,099</u>
	<u>\$ 2,858,976</u>

The two notes payable to Home Bank with a total balance outstanding of \$2,765,968 as of June 30, 2014, have terms due upon demand, or if no demand, in the number of payments and amounts as required by the note agreement. The bank has confirmed that as long as the stated payments are made timely, demands for repayment would not be made on either note. Therefore, the above repayment schedule reflects principal payments on these two notes assuming no early demand.

Total interest expense for the above notes payable totaled \$125,628 and \$111,365 for the years ended June 30, 2014 and 2013, respectively.

**Note 9 - TEMPORARILY RESTRICTED NET ASSETS**

As of June 30, 2014 and 2013, HFHSTW temporarily restricted net assets of \$67,844 and \$39,917, respectively are time restricted by donors.

**Note 10 - SALES OF HOUSES**

HFHSTW charges no interest on the mortgages receivable from its partner families. The mortgages are recorded net of a discount to present value, considering both the time value of money and the historic credit risk associated with HFHSTW's homeowners. The result is a significant non-cash reduction of revenue. The discount is then amortized as interest income over the life of the mortgage as principal payments are collected. For the years ended June 30, 2014 and 2013, the following amounts are included in the Statement of Activities and Changes in Net Assets:

	<u>2014</u>	<u>2013</u>
Sales of houses		
Sales income	\$ 1,232,006	\$ 1,038,342
Mortgage discount expense	<u>(746,543)</u>	<u>(603,213)</u>
Sale of house, net of discount expense	<u>\$ 485,463</u>	<u>\$ 435,129</u>
Amortization income on mortgage notes receivable discount	<u>\$ 388,628</u>	<u>\$ 364,689</u>

**Note 11 - RETIREMENT PLAN**

HFHSTW adopted a defined contribution plan, which allows eligible participating employees to contribute by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Plan allows HFHSTW to contribute a discretionary amount on a uniform basis to all participants, 50% of a participant's contribution up to 3% of compensation. HFHSTW's contribution to the Plan totaled \$14,876 and \$17,002 for the years ended June 30, 2014 and 2013, respectively.

**Note 12 - OPERATING LEASE**

During the year ended June 30, 2013, HFHSTW entered into an operating lease for a freightliner truck to be used in ReStore operations. Lease expense related to the freightliner totaled \$16,648 and \$7,430 for the years ended June 30, 2014 and 2013, respectively.

**Note 12 - OPERATING LEASE (Continued)**

Future minimum lease payments are as follows:

<u>June 30,</u>	
2015	\$ 10,188
2016	10,188
2017	10,188
2018	10,188
2019	<u>6,792</u>
	<u>\$ 47,544</u>

**Note 13 - CONTINGENCY**

As of June 30, 2013, HFHSTW had identified one home constructed in a prior year that had manifested symptoms and resulted in property damage. HFHSTW estimated the cost required to correct the damage to be \$20,000, recorded an expense and liability for the year ended June 30, 2013. The amount was paid and no additional expense was incurred during the year ended June 30, 2014.

**Note 14 - IMPAIRMENT LOSS**

During the year ended June 30, 2009, HFHSTW purchased a parcel of land described as the South Half of Square 150, Town of Mandeville ("Square 150"). The original intent of the purchase was to build 28 home sites. Since the original purchase, zoning regulations have changed, and HFHSTW may now only build seven home sites on Square 150. In addition, during the year ended June 30, 2014, management believed that the fair market value of Square 150 had significantly declined. An independent appraisal of the land was completed during the year ended June 30, 2014, and an impairment loss in the amount of \$255,156 was recorded and reported on the Statement of Functional Expenses.



**Note 15 - SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>2014</u>	<u>2013</u>
Cash paid for interest	<u>\$ 164,812</u>	<u>\$ 150,931</u>

Non-cash financing activities include the refinancing of debt for the year ended June 30, 2014 and 2013. Debt refinanced during 2014 totaled \$456,323. Related interest of \$1,892 was included in the new loan. Debt refinanced during the year ended June 30, 2013 totaled \$2,574,459 with related interest of \$12,110 and loan fees of \$9,046 that were included in the new loan.

During the year ended June 30, 2014, land held for future home sites acquired by donation was \$40,000 and land held for investment (included in property and equipment) acquired by donation totaled \$115,764.

During the year ended June 30, 2013, equipment acquired by donation was \$6,562.

**SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,  
Habitat for Humanity St. Tammany West,  
Mandeville, Louisiana.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity St. Tammany West (the "HFHSTW"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated November 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the HFHSTW's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HFHSTW's internal control. Accordingly, we do not express an opinion on the effectiveness of the HFHSTW's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether HFHSTW's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HFHSTW's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HFHSTW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Bourgeois Bennett, L.L.C.".

Certified Public Accountants.

New Orleans, Louisiana,  
November 21, 2014.

## **SCHEDULE OF FINDINGS AND RESPONSES**

### **Habitat for Humanity St. Tammany West Mandeville, Louisiana**

For the year ended June 30, 2014

#### **Section I - Summary of Auditor's Results**

##### **a) Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be a material weakness? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

##### **b) Federal Awards**

HFHSTW did not expend more than \$500,000 in federal awards during the year ended June 30, 2014, and therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations.

#### **Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

##### **Internal Control Over Financial Reporting**

There were no findings noted during the audit for the year ended June 30, 2014 related to internal control over financial reporting.

##### **Compliance and Other Matters**

There were no findings noted during the audit for the year ended June 30, 2014 related to compliance and other matters.

#### **Section III - Federal Award Findings and Questioned Costs**

Not applicable.

## **REPORTS BY MANAGEMENT**

## **SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES**

**Habitat for Humanity St. Tammany West**  
Mandeville, Louisiana

For the year ended June 30, 2014

### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

#### **Internal Control Over Financial Reporting**

No findings noted during the audit for the year ended June 30, 2013 related to internal control over financial reporting.

#### **Compliance and Other Matters**

No compliance findings material to the financial statements were reported during the audit of the financial statements for the year ended June 30, 2013.

### **Section II - Internal Control and Compliance Material to Federal Awards**

HFHSTW did not expend Federal awards in excess of \$500,000 during the year ended June 30, 2013, and therefore is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2013.

## **MANAGEMENT'S CORRECTIVE ACTION PLAN**

**Habitat for Humanity St. Tammany West**  
Mandeville, Louisiana

For the year ended June 30, 2014

### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

#### **Internal Control Over Financial Reporting**

No material weaknesses were reported during the audit of the financial statements for the year ended June 30, 2014.

No significant deficiencies were reported during the audit of the financial statements for the year ended June 30, 2014.

#### **Compliance and Other Matters**

No compliance findings material to the financial statements were reported during the audit for the year ended June 30, 2014.

### **Section II - Internal Control and Compliance Material to Federal Awards**

HFHSTW did not expend more than \$500,000 in Federal awards during the year ended June 30, 2014 and, therefore, was exempt from the audit requirements Under the Single Audit Act and OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit for the year ended June 30, 2014.